

# **FISCAL YEAR 2010-11 BUDGET STUDY SESSION**

**April 6, 2010**

# PURPOSE OF STUDY SESSION

- Present the second prong of the Budget Balancing Strategy
  - Including a draft Recreation Cost-Recovery Policy
- Responses to Council questions from February 23, 2010 Study Session
- Supplemental information to potential expenditure reductions

# BUDGET PROCESS/SCHEDULE

- June 23, 2009 → Process discussion
- September 29, 2009 Study Session → Proposed process, strategy and schedule
- November 4 & 9, 2009 → Budgeting 101 and City services community meetings
- January 26, 2010 Budget Workshop → Refined strategy (3 pronged approach), short- and long-term strategies
- February 23, 2010 Study Session → Potential operating cost reductions (first prong)

# **POTENTIAL REVENUE ADJUSTMENTS FOR FY10-11**

# OVERVIEW

- City services can be categorized as:
  - Fully fee-supported
  - Partially fee-supported
  - Fully funded by general purpose revenue
- Reasons to recover cost of service or not
  - If service provides a general benefit
  - If service is provided to only certain beneficiaries
- One of three prongs proposed to balance the FY10-11 budget is to increase the cost-recovery percentage for specific services

# COUNCIL DIRECTION

- Draft cost-recovery policy for recreation services/programs
- Review potential changes to existing fees
- Identify potential new fees

# DIRECT VS. INDIRECT COSTS

- Direct Costs – Costs incurred directly by the cost center/program and include operational costs, salaries and benefits, capital outlay and vehicle maintenance
- Indirect Costs – Costs include City-wide and department administrative overhead, facility overhead, utilities, capital equipment replacement reserve funding, insurance and cost of service from other departments

# DIRECT VS. INDIRECT COSTS (cont.)

- Average amount of indirect costs is 22.0 percent
- Level of cost recovery will cover both direct and indirect costs associated with that program
- Staff proposing the calculation of cost-recovery percentage be based on using direct costs only
  - Most common method used by neighboring cities
  - Makes market comparisons more straightforward
  - Simplifies monitoring and tracking performance

# DRAFT RECREATION COST-RECOVERY POLICY

- Start with Recreation Services then add policies in other fee areas
- Cost-recovery policies can provide guidance for annual adjustments to service fees
- Annual CPI or COLA do not always capture all the increases of the costs
- Policies can be set at 122.0 percent of direct cost or some lower level

# DRAFT RECREATION COST-RECOVERY POLICY (cont.)

- Policy is a way to categorize services and determine the appropriate level of cost recovery and corresponding subsidy
- Recreation fees of surrounding cities and cities of similar size were surveyed
  - Used to make initial estimations of additional revenue
  - Used as the basis for providing market information and recommending cost-recovery ranges

# DRAFT RECREATION COST-RECOVERY POLICY (cont.)

- Establishing a cost-recovery policy will:
  - Provide a structure to calculate fees for recreation programs
  - Establish cost-recovery levels based on the type of service, population served and level of benefit to the community
  - Allow Council to determine the appropriate level of cost recovery (or subsidy)
  - Provide a systematic framework for tracking financial performance

# DRAFT RECREATION COST-RECOVERY POLICY (cont.)

- Principles:
  - Programs with community-wide benefit at the lowest cost recovery
  - Programs with the greatest level of individual or group benefit at the highest cost recovery
  - Pricing of services should support and be consistent with City policies and objectives
  - Pricing of services should take into account market rates and impact on demand
  - Price nonresident fees higher than resident fees
  - Fees to be periodically reviewed and updated
  - Continue fee waiver program

# DRAFT RECREATION COST-RECOVERY POLICY (cont.)

- Categorization of Services:
  - Level 1: 0.0 to 50.0 percent – the lowest level for programs and activities with community-wide benefit and can be accessed by broadest cross-section of the population
  - Level 2: 50.0 to 100.0 percent – mid-range for programs and activities that provide both a community-wide and individual/group benefit
  - Level 3: 80.0 to 122.0 percent – highest level for programs and activities providing benefit to an individual or group with minimal or no benefit to the community

# MARKET

- Staff proposing a plus/minus allowance of 5.0 percent of target cost-recovery rates
- In some cases in order to be within market range, the cost-recovery percentage being recommended is below the target
  - Recommend evaluating the program over the next two fiscal years to evaluate program costs
  - If program determined not to be sustainable at proposed target rates, target will be modified or program discontinued
- Reevaluation of targets to analyze how fee increases impact participation levels and recovery rates

# RECREATION FEE ADJUSTMENTS

- Adjustments in several service areas
- Maintain current subsidy in several areas
- Council may want to consider phasing in larger increases over more than one fiscal year
- City has a fee waiver program that is available to cover increased fees to qualified applicants that have a financial need

# CPA FEE ADJUSTMENTS

- Effort to decrease the CPA's reliance on General Fund revenue
- Potential fee adjustments would produce \$36,500 of additional revenue

# FORESTRY FEE ADJUSTMENTS

- Currently no fee for heritage tree application
- Recommending a fee to recover costs
- Recommending an increase in heritage tree appeal
- Total revenue increase estimated to be \$39,700

# PUBLIC WORKS DEPT. FEE ADJUSTMENTS

- Fee adjustments are recommended in areas where the service provided is for a direct beneficiary versus the community at large
- Fee adjustments are recommended to go to 100.0 percent of cost of service
- Adjustments would result in increased revenue of \$55,100

# COMMUNITY DEVELOPMENT DEPT. FEE ADJUSTMENTS

- Recommended fees bring some services to 100.0 percent cost recovery and others to 50.0 percent cost recovery
- Anticipated that the fee adjustments would produce \$55,700

# POLICE DEPT. FEE ADJUSTMENTS

- Police Department recently undertook a cost-of-service study
- Results of the study were recently received and show the City is only recovering a small percentage of the costs
- Potential to adjust fees is under review and preliminary analysis shows that additional revenue in the \$125,000 to \$350,000 is possible

# OTHER POTENTIAL NEW FEES

- Council request to look at a parking/entrance fee at Shoreline Park
- Charging a fee for parking downtown
- Staff is not recommending either fee at this time

# POTENTIAL REVENUE ADJUSTMENTS FOR FY10-11

- Second prong of Budget Balancing Strategy
  - Increase revenues \$1,000,000
    - Recreation \$600,000
    - Center for Performing Arts \$36,500
    - Forestry \$39,700
    - Public Works \$55,100
    - Community Development \$55,700
    - Police \$125,000 to \$350,000

# NEXT STEPS ON FEE ADJUSTMENTS

- Council input at the study session will be helpful to staff
- Process will be undertaken to take input from stakeholders and interested community members
- City Manager's recommend/proposed budget will include a fee adjustment component

# LONGER-TERM BUDGET BALANCING STRATEGIES

## Expenditures

- Containing the growth of enhanced/new services
- Containing the growth in annual compensation cost increases
- Deferring Capital Improvement Projects requiring increased maintenance and operating costs
- Workers' Compensation insurance program administration
- Additional organizational functional consolidations/reorganizations

# LONGER-TERM BUDGET BALANCING STRATEGIES

## Expenditures (cont.)

- Containing of long-term benefit cost increases
  - PERS: +\$5.5M (GOF) over next 3 years
  - Retirees' Health Insurance:
    - Liability grew from \$21.0M in 2001 to \$66.6M in 2009
    - City contributed \$12.0M lump sum from FY00-01 to FY09-10 in addition to \$12.6M in cumulative annual payments for the GOF
    - Annual GOF payment obligation has grown from pay as you go of \$392,000 to an actuarial required contribution of \$3.7M

# LONGER-TERM BUDGET BALANCING STRATEGIES

## Expenditures (cont.)

- Alternative service delivery models
- Fire Department minimum staffing requirement

## Revenues

- Economic Development
- Lighting and Landscape District
- Downtown Maintenance District
- Voter-approved Tax Measure

# NEXT STEPS

- April 13 → Review/update of Major City Goals
- April 20 → Proposed Capital Improvement Plan
- May 4 → Review and Council direction regarding General Operating Budget Balancing Scenarios and Review of Utility and Special Funds
- June 3 → Distribution of City Manager Recommended/Proposed Budget
- June 15 → Budget Public Hearing (Special Meeting)
- June 22 → Final Budget Public Hearing and Budget Adoption (Regular Council Meeting)